

THE SILVA PHARMACEUTICALS LTD.

Company Overview

Silva Pharmaceuticals Limited (SPL) was incorporated on 24th April, 2001 and started its commercial operation on 1st July, 2003. The principal Product of the Company are Tablet, Capsule, Liquid and Dry Syrup. The Company is engaged in manufacturing and marketing of pharmaceuticals finished products in the categories of Antibiotics, Analgesics, Anti diabetics, Narcotics, Anti pyretic, Vitamins, Minerals etc which is selling mainly in local market. There is no subsidiary, associate or holding Company of SPL. The Company has its corporate office at Dhanmondi, Dhaka and factory office is located at Noakhali, Bangladesh.

As of June 30, 2017, the Company reported BDT 602.5 million of revenue in the year of 2016-17. As of June 2017, the Company's Tablet and Capsule products contributed 58.17% & 31.51% respectively to its revenue. The Company's products are sold to various customers and no single customer provides 10% or more of the Company's total revenue.

The major raw materials are active pharmaceutical ingredients and excipients (substance formulated). The raw materials of the Company are procured from 94.9% domestic and 5.1% overseas market, mainly from India, China, Dubai, Singapore and Spain in 2017. The Company's raw materials are purchased from various suppliers and no single supplier provides 10% or more of the Company's total supply of raw materials.

Installed capacity and its utilization are shown in the following table:

Product	Production Capacity Million (Pcs/ Phial)*			Utilization Rate
	2015-16	2016-17	Growth	2016-17
Tablet	194.61	198.00	1.74%	60.14%
Capsule	49.99	52.00	4.02%	61.23%
Liquid	1.56	1.80	15.38%	69.83%
Dry Syrup	0.16	0.22	37.50%	81.18%

* Capacity is calculated considering 300 days per year; 2 shifts per day and 8 hours per shifts.

The Company raised its capital amounting of BDT 300 million in August 2018 through fixed price method of Initial Public Offering (IPO). Prime Finance Capital Management Limited, Imperial Capital Limited and SBL Capital Management Ltd. are the issue manager and Mahfel Huq & Co. is the auditor of the Company.

Utilization of the proceeds of IPO is as follows:

Use of Proceeds	BDT	%	Implementation
Acquisition of brand new Machineries & Equipment	122.5	40.8%	Within 18 months after receiving IPO Fund.
Civil construction of two storied new factory building	56.0	18.7%	Within 18 months after receiving IPO Fund.
Repayment of term loan	99.0	33.0%	Within 3 months after receiving IPO fund.
IPO expenses	22.5	7.5%	As and when required
Total	300.0	100%	

IPO Details

No. of Shares (Post-IPO) in mn	130
Authorized Capital (BDT mn)	1,500.0
Pre-IPO Paid-up Capital (BDT mn)	1,000.0
Post-IPO Paid-up Capital (BDT mn)	1,300.0
IPO size in shares (mn)	30.0
Face value per share (BDT)	10.0
NAVPS (Post-IPO, BDT)	15.5
Audited EPS (Post-IPO, 2017-18, BDT)	0.7

	2014-15 (Jun-May)	2015-16 (Jul-Jun)	2016-17 (Jul-Jun)	2017-18 (9M Ann)
Financial Information (BDT mn):				
Sales	504	586	602	690
Gross Profit	190	231	237	284
Operating Profit	123	145	125	159
Profit After Tax	52	70	80	102
Assets	1,234	1,639	1,941	2,002
Capex	-	118	-	39
Long Term Debt	111	97	-	-
Short Term Debt	149	132	99	102
Equity	849	1,239	1,648	1,694
Margin:				
Gross Profit	37.6%	39.5%	39.3%	41.1%
Operating Profit	24.5%	24.7%	20.7%	23.1%
Pre Tax Profit	15.9%	18.3%	20.5%	22.8%
Net Profit	10.3%	11.9%	13.3%	14.8%
Growth*:				
Sales	2.0%	16.3%	2.8%	14.5%
Gross Profit	-6.8%	21.9%	2.4%	19.8%
Operating Profit	-14.1%	17.3%	-13.9%	28.0%
Net Profit	5.3%	33.9%	15.4%	27.3%
Profitability:				
ROA	4.4%	4.8%	4.5%	5.2%
ROE	6.8%	6.7%	5.6%	6.1%
Operating Efficiency Ratios:				
Inventory TO*	2.10	2.01	1.79	1.82
Receivable TO	2.09	2.20	2.24	2.75
A/C Payable TO	31.33	-	-	-
Total Asset TO	0.43	0.41	0.34	0.35
Fixed Asset TO	0.83	0.91	0.87	0.97
Leverage:				
Debt Ratio	21.1%	14.0%	5.1%	5.1%
Debt-Equity	30.6%	18.5%	6.0%	6.0%
Int. Coverage	2.8	4.3	351.5	41.7

*TO indicates Turnover; *Growth of 2017-18 is calculated based on 9 months annualized data over last year. *The Company has changed the reporting period to July-June from Jun-May in 2015.

Board of Directors of the Company

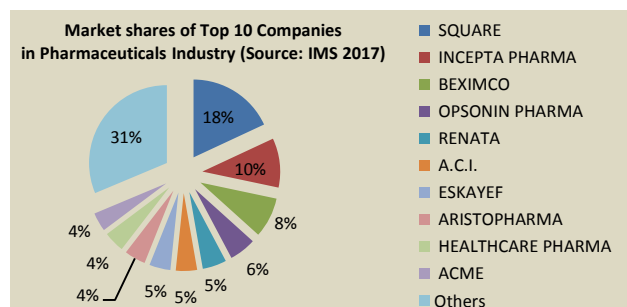
Name of the directors	Position	% of Holdings Post-IPO
Mrs. Silvana Mirza	Chairman	2.24%
Dr. Saira Khan	Managing Director & Director	5.36%
Mrs. Samina Mirza	Director	2.24%
Mrs. Farhana Mirza	Director	2.24%
Mr. Monsur Rahman	Director	3.92%
Md. Nazrul Islam Khan	Director	23.08%
Total		39.08%

The Managing directors are involved in other organizations namely AGI Flour Mills Ltd. & Ark Hospital Limited. Dr. Saira Khan is Sister-in-law of Chairman Mrs. Silvana Mirza.

Industry Overview

Pharmaceutical Industry is one of the most developed manufacturing industries in Bangladesh which is considered second largest sector in terms of contribution of government exchequer. Prior to 1982, there were about 10 multinational companies securing 80% of total market share. At present, this industry primarily produces generics drugs of around 8,300 different brands that furnish up to 98% of the domestic demand. Currently, there are more than 439 registered pharmaceutical manufacturers in Bangladesh.

According to IMS Report 2017, top 10 companies occupy 68.68% of the total market share and top 20 manufacturers grabbed 86.21% of total market which was 85.91% in last year.



Export is a promising but untapped segment for the country's pharmaceutical sector. According to DGDA (Directorate General of Drug Administration), Bangladesh exports drugs to 87 countries. In 2017, the Country exported BDT 31.96 billion pharmaceutical products which were 29.69% higher than that of 2016.

However, supply side of this industry mostly depends on import. Around 90% of required raw materials are imported from China and India whereas some local companies – Beximco Pharmaceuticals Ltd., Square Pharmaceuticals Ltd., Oponin Chemicals Ltd. Drug International Ltd., Globe Pharmaceuticals Ltd., Gonoshastaya Pharmaceuticals Ltd, Sunipun Pharmaceuticals Ltd. etc. – produce certain APIs on smaller scale for mainly in-house use. The local companies usually run the relatively easier final chemical synthesis stage with API intermediaries, instead of the complete chemical synthesis.

Meanwhile, construction of 200-acre API Park is in progress. A total of 42 industries would be set up under the project; expected total cost is BDT 4.39 billion. Upon operational of the plant, the raw material imports are expected to come down to

30% and the costs of APIs are estimated to decrease by around 20%. The API industrial park promises to propel Bangladesh to the next level as a drug exporter since it is expected to help the local pharma companies gain more export orders with a competitive edge and maintain stable prices in the domestic market.

WTO (World Trade Organization) member countries have extended the deadline to comply with the TRIPS (Trade-Related Aspects of Intellectual Property Rights) agreement, allowing LDCs to avoid applying and enforcing IP (Intellectual Property) rights on pharmaceutical products until 2033. Bangladesh will get more benefit from the extension of drug patent waiver as the country is more capable of manufacturing pharmaceutical products than any other LDCs.

Peer Companies Listed with DSE

The performance of major competitors for the companies with same core operating activities listed with the Dhaka Stock Exchange is shown in the following table:

	SPL	CENTRALPHL	AMBEEPHA	BEACONPHAR
Turnover (BDT mn)	517	226	272	2,679
Gross Profit Margin	41.1%	44.0%	52.6%	51.10%
Net Profit Margin	14.8%	14.62%	2.8%	3.00%
EPS (BDT)	0.59	0.29	2.52	0.35
NAVPS (BDT)	13.03	15.55	24.76	12.79
P/E	-	35.95	168.7	39.0
Current Price	-	13.9	564.7	18.2

The above mentioned figures are based on 2017-18 (Jul-Mar).

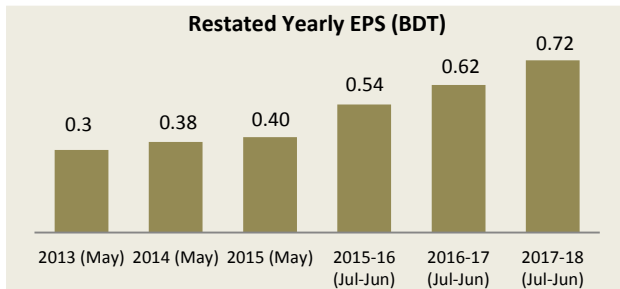
Investment Positives

- **The Company will increase its installed production capacity of Tablet, Capsule, Liquid & Dry Syrup project to 270.51, 71.04, 2.46 & 0.30 million (Pcs. & Phial) which is up by 36.6%, 36.6%, 36.7% & 36.4% respectively from its existing capacity.** For this expansion purpose, acquisition of machineries & equipment for an estimated amount of BDT 122.5 million will be required which will be financed from its IPO proceeds. **The Company is expecting to start commercial operation from the expanded capacity by May 2020.**
- **The Company will repay its loan of BDT 99.0 million within November 2018 from its IPO proceeds.** As of March 2018 short term loan was BDT 102.0 mn. This reduction in short term loan will improve the profit margin of the Company.
- In the National budget of 2018-19, the government exempted duty on import of some pharmaceuticals raw materials which **will decrease the cost of goods sold and improve gross profit margin of the Company.**

Investment Negatives

- **The Company is exposed to foreign exchange risk as it has to depend on imported raw materials.** As majority of the Company's foreign currency transactions are denominated in USD, unfavorable foreign exchange movement may affect the profitability of the Company. **In recent times, BDT has depreciated against USD by 5.88% as of September 2018 from January 2017.**

- The Government has increased the electricity price in December of the last year by 5.3% and planned to increase the gas price soon. It will increase the cost of production which will eventually affect the profitability of the Company.



Lock-in Period & Indicative Price

Lock-in for 25% of the shares allotted to eligible investors shall be for 06 months and other 25% of the shares allotted to them will be for 09 months from **the date of issuance of the prospectus which was July 02, 2018.**

Free-up Date of Lock-in Shares:

6 Month	9 Month	1 Year	3 Year
January 02, 2019	April 02, 2019	July 02, 2019	July 02, 2021
3,750,000	3,750,000	20,270,000	79,730,000

Latest Declaration

As per audited financial performance for the year 2017-18, the Company reported profit after tax of BDT 92.99 mn which was BDT 80.28 mn registering 15.83% growth over the same period of last year. Post-IPO EPS was BDT 0.72 for year end on June 2018 and NAV per share was BDT 15.47 as of June 2018. The Company has declared 'no dividend' for the year ended on June 2017.

Valuation

Pricing Based on Relative Valuation:

	Market Multiples	Silva Pharmaceuticals Limited	Value/Share
Sector Forward P/E	17.5	2017-18 EPS – 0.72	12.6
Sector Trailing P/E	19.3	2016-17 EPS – 0.62	11.9
Net Asset Value Per Share		NAVPS – 15.5	15.5

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